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OUR PENSIONS - OUR FUTURE

CONSULTATION COMMITTEE
SUBMISSION TO THE
NEW BRUNSWICK GOVERNMENT
ON THE

PUBLIC SERVICE SUPERANNUATION ACT

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TABLE OF CONTENTS

TITLE	PAGE NO.
Executive Summary	1
Part I	
Introduction	3
Part II	
Our Pensions - Our Future	5
a) Past Unfunded Liabilities b) Advisory Committee	
Part III	
Recommended Changes	8
Part IV	
Conclusion	12

EXECUTIVE SUMMARY

Pensions are an area of vital concern for the 16,000 public servants, and the 4,000 pensioners, enrolled in the pension plan defined by the Public Service Superannuation Act.

PAST SERVICE UNFUNDED LIABILITY

The unfunded liability of the plan for past service is solely the responsibility of the government.

ADVISORY COMMITTEE

The committee recommends that the advisory committee, outlined in the P.S.S.A., be implemented.

BENEFIT IMPROVEMENTS: IMMEDIATE

The following plan improvements are a priority concern of the members of the plan:

- unreduced retirement age of 60.
- reduction of 3% annually in the benefit for retirement between age 55 and 60
- permanent part-time and seasonal government employees to become eligible for plan membership.

BENEFIT IMPROVEMENTS: LONG-TERM

The following plan improvements are recommended for future consideration:

- pension formula
- inflation protection
- survivor benefits
- discriminatory features
- the means of disposal of future surplus to be stated in the plan document.

PART I - INTRODUCTION

The Public Service Superannuation Act (PSSA) directly affects over 20,000 citizens in the province. These individuals work, or have worked, in a wide variety of government organizations such as government departments and crown corporations. All provide, or have provided, necessary and valuable service to the people of New Brunswick.

The Consultation Committee is concerned with the financial and design features of the pension plan. It is this pension plan, along with federal retirement plans, which provides the income necessary for retirement for thousands of New Brunswickers.

For these workers, a strong workplace pension is the difference between a secure retirement and one spent near poverty. The pension deal is determined by certain general principles.

1. All Canadians have a right to live their retirement years in financial security, with dignity and self respect.

2. Plan design must be adaptable to the needs of all workers in the plan.

3. Those who must contribute their earnings to a pension plan have a right to a meaningful say in setting contribution rates and benefits levels, the principles governing the fund, and the management of the fund.

4. The plan should state the process to be followed in the event that a future surplus occurs.

Using the principles as a framework, co-operative and progressive decisions can be taken to meet the needs of public sector workers in New Brunswick. At the heart of these principles, is the belief that a pension is not a benevolent "gift" from the employer, but deferred compensation.

PART II - OUR PENSION: OUR FUTURE

Several issues have arisen during this consultation. The New Brunswick Public Service Superannuation Act is more than merely another piece of legislation. Therefore, these are matters of grave concern. We would like to deal with three issues - The Past Unfunded Liability, the need for a joint pension board, and areas of potential plan improvements. We believe that all of these areas are interconnected.

a) PAST UNFUNDED LIABILITIES:

Since the plan's inception in 1932, plan members have made their required contributions as an automatic deduction from pay. Throughout the existence of the plan, the employees have always made the contribution required from them. In 1975 the employer made its first regular contribution to the fund and commenced making matching contributions in 1977. Some of the sub-employers, usch as NBPower, Workers' Compensation Board, etc. made regular payments to the fund prior to 1975. That contribution remained at matching employee contributions, rather than the normal procedure of an amount necessary to fund the plan. The employer's failure to make continuous contributions to the fund from 1932 to 1977, and to make less than adequate contribution after 1977, caused some proportion of the unfunded liability. The introduction of benefit improvements retroactively, without an increase in funding, also contributed to the creation of the unfunded liability.

The committee recommends that the government accept full responsibilitiy for the past service unfunded liability. Since the largest proportion of the unfunded liability resulted from government policies in the past, both in terms of no funding and underfunding, the employees accept no responsibility for past service unfunded liability.

The government should undertake to amortize the unfunded liability over a reasonable period of years. Any employee contribution increase can not be used to pay off existing unfunded liabilities.

The Committee does acknowledge, that between the years 1981 and 1989, the managers of the fund did achieve returns that placed it in the top 25 percent of Canadian pension funds. The committee would also like to acknowledge the improved communications that will result from the new policy of making annual reports available on the performance of the fund in the future. In the future, as well, the committee recommends that the government continuously review investment policy.

b) ADVISORY COMMITTEE:

The committee recommends that a joint pension board, as contemplated under the P.S.S.A. be implemented. The board should be composed of representatives of all the major stakeholders in the P.S.S.A. The committee further recommends that the mandate of the board be determined in detail by the board after it is constituted, and that this mandate then be established by regulation to the P.S.S.A. In general, the board will receive reports dealing with all matters pertaining to the pension plan, which includes administrative reports, plan investment reports and actuarial reports. The board will oversee the distribution of information to plan members and sub-employers. In addition, the board will act as a forum for discussion with regard to future policy direction, benefit changes, and contribution rate changes.

PART III - RECOMMENDED CHANGES

IMMEDIATE:

The following three changes are important for the plan members.

a) UNREDUCED EARLY RETIREMENT AT AGE 60:

A plan amendment that is high on the priority list for many members is a formula for unreduced early retirement. Many public service workers have job stresses, both physical and mental, that take their toll. These workers simply cannot continue to work in their jobs. Yet after many years of service to the public, if they suffer burnout, they are forced to retire on substantially reduced retirement income. We recommend unreduced retirement at age 60 with at least 5 years of service.

At present, the P.S.S.A. in New Brunswick is the only provincial plan lacking any unreduced early retirement provisions. Most of the other provinces have an age-service index (85 or 90) in addition to unreduced retirement at age 60. In addition pension plan covering federal government employees have generous early retirement provisions.

b) A REDUCTION OF 3% PER YEAR IN THE BENEFIT FOR RETIREMENT BETWEEN AGES 55 AND 60:

The employee representatives recommend that a three percent annual actuarial reduction be applied to the benefit of those who retire between ages 55 and 60.

c) EXPANDED ELIGIBILITY:

Permanent part-time and seasonal employees are presently excluded from participation in the P.S.S.A. Philosophically, the committee agrees that all permanent part-time and seasonal workers should be permitted plan membership. The government recognized the right of part-time workers to have pension coverage in the Agenda for Change document, and the Pension Benefits Act dictates such coverage, as long as certain minimum service is met -- earnings of 35% of YMPE for two consecutive years. The committee also recognizes that this proposal is a major cost item.

MEDIUM AND LONG TERM CHANGES

The following issues should be considered in the future. In the event that the pension board under the P.S.S.A. is activated, it is recommended that the Medium and Long-Term Issues be considered by that committee.

a) PENSION FORMULA

i) INTEGRATION FORMULA

The existing integration formula, which creates different contribution rates above and below the Years' Maximum Pensionable Earnings so as to "integrate" this plan with Canada Pension Plan (CPP), discriminates against lower paid workers. Lower paid workers end up paying proportionately more for pension benefits than do higher paid workers. The planned increase in the contribution rate for the CPP will place an even heavier contribution burden on lower paid workers.

ii) **BEST AVERAGE FORMULA**

The pension formula, based on five successive years, is important as it protects the pension benefit from the effects of inflation as well as reflecting recent trends in wage increases. However, the three-year average formula could improve benefits still further, and is now permitted under the revised Income Tax regulations.

b) **FULL INFLATION PROTECTION**

The social cost of not providing 100 percent inflation protection cannot be ignored. It is well known that even a small increase in the Consumer Price Index has a devastating effect on a fixed income.

The progressive elimination of the 6 percent cap in the existing formula could be considered. The majority of public service plans in Canada have more generous indexing than the P.S.S.A. with some, such as the Federal plan, paying full CPI with no cap. The committee does recognize the benefit of the New Brunswick formula in that at least a certain percentage increase is guaranteed each year, as long as the inflationary tread continues.

c) SURVIVOR BENEFIT:

The need to protect the pension asset of families is well recognized, from coast to coast. The recent round of pension reform has established a clear minimum standard for survivor benefits. A survivor benefit of 66 2/3% of the plan members' benefit is now allowed under the Federal Income Tax Act.

d) DISCRIMINATION

Discriminatory features have no place in a pension plan. All references that restrict the pension benefit solely on a discriminatory basis, such as the present unavailability of the survivor benefit to common law and same sex couples should be examined.

e) SURPLUS/OWNERSHIP OF THE FUND

As a result of the controversy across the country surrounding the issue of pension plan surplus, it is recommended that an appropriate resolution mechanism for disposal of any surplus that arises in the future should be included in the plan document.

PART V - CONCLUSION

Pensions are a high priority issue. It is hoped that the government will continue to meet with employee representatives to work jointly, as partners, to put the pension plan on a more secure footing. Improved communications and consultation between the government and the plan members will lead to a more co-operative pension deal. In this way, a pension plan built on consensus can be created -- a pension plan which meets the needs of plan members and all the citizens of New Brunswick.